

**CITY OF VAN HORNE**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
AUGUST 1, 2013 THROUGH JULY 31, 2014**

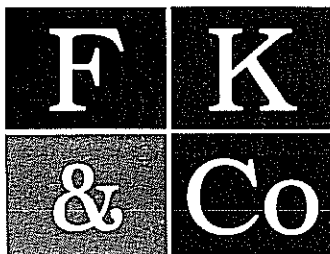
## Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	4-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
Reconciliation of Utility Billings, Collections and Delinquent Accounts	B 7
Clerk's Report	C 7
Certified Budget	D 8
Investment Policy	E 8
Official Depositories	F 8
Annual Financial Report	G 8
Separately Maintained Records	H 9
Local Option Sales and Services Tax	I 9
City Council Minutes	J 9-10
Financial Condition	K 10
Bank Reconciliations	L 10
Tax Increment Financing (TIF)	M 10-11
Annual Urban Renewal Report (AURR)	N 11
Electronic Check Retention	O 11
Business Transactions	P 11
Transfer and Journal Entry Documentation	Q 12
Water and Sewer Revenue Notes	R 12
Receipt Coding	S 12

## City of Van Horne

### Officials

		Term
<u>Name</u>	<u>Title</u>	<u>Expires</u>
Martin Junge	Mayor	Jan 2016
Steve Allman	Council Member	Jan 2018
Mary Rausch	Council Member	Jan 2016
Jim Parmenter	Council Member	Jan 2018
Rebecca Norton	Council Member	Jan 2018
April Carlson	Council Member	Jan 2016
Linda Klopping	City Clerk	Indefinite
Jennifer Zahradnik	City Attorney	Indefinite



**FALLER, KINCHELOE & CO, PLC**

**Certified Public Accountants**

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Van Horne pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Lawton for the period August 1, 2013 through July 31, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.
15. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
16. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Van Horne, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Van Horne, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Van Horne and other parties to whom the City of Van Horne may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Van Horn during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Faller, Kincheloe & Co, PLC*

Faller, Kincheloe & Co, PLC

December 15, 2014

## CITY OF VAN HORNE

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (C) Clerk's Report – A monthly Clerk's report, including a summary of revenues, disbursements, ending balances by fund and a budget vs actual comparison, is not prepared.

Recommendation – The City Clerk should prepare a monthly Clerk's report which includes a summary of receipts, disbursements and ending balances by fund. Also the Clerk's report should show a budget vs actual comparison. The City Council should review and approve the Clerk's report monthly.

## CITY OF VAN HORNE

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (D) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the public works, culture and recreation, and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” Also there was no evidence in the City Council minutes that the budget was passed by resolution, as required by Chapter 384.16(5) of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City should also ensure that all future budgets are passed by resolution, as required by Chapter 384.16(5) of the Code of Iowa.

- (E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (F) Official Depositories – A resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa, but the amount was not included.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

- (G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records.



## CITY OF VAN HORNE

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (H) Separately Maintained Records – The Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (I) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 25% for street improvements and 75% for utility improvements. All of the local option sales tax receipts are recorded in a special revenue fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

- (J) City Council Minutes – The following were identified:

- The City Council went into a closed session on April 14, 2014. The vote of each member to go into a closed session was not documented as required by Chapter 21.5 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for some meetings tested.
- The garbage rate was not set by ordinance.

## CITY OF VAN HORNE

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

Recommendation – The City should comply with Chapters 21.5 and 372.13(6) of the Code of Iowa. In addition, the City should ensure the total disbursements from each fund and summary of all receipts are published as required, and establish an ordinance in relation to the current garbage rates charged to customers.

- (K) Financial Condition – At July 31, 2014, the City had deficit balances of \$6,100 and \$957,951 in the Debt Service and Capital Project Funds, respectfully.

Recommendation – The City Council should investigate alternatives to eliminate these deficits and return the funds to a sound financial position.

- (L) Bank Reconciliations – Although monthly bank reconciliations were performed, the reconciliations contained outstanding items that were inaccurate.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

- (M) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

During fiscal year 2013, the City paid principal and interest on two of its general obligation bonds from the Special Revenue, Tax Increment Financing Fund through transfers to the Debt Service Fund. However, in fiscal year 2013 the City transferred \$3,465 more from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund than the related debt payments due in fiscal year 2013. City personnel could not explain how the \$3,465 was spent on TIF related activities.

CITY OF VAN HORNE

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

Recommendation – The City should work with TIF legal counsel to resolve this situation.

- (N) Annual Urban Renewal Report (AURR) – As of June 30, 2013, the City understated the amount reported as TIF debt outstanding on the AURR Levy Authority Summary by \$35,750.

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City's records.

- (O) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (P) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Martin Junge, Mayor Owner of O'Gradys	Supplies	\$807

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with Martin Junge does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

## CITY OF VAN HORNE

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (Q) Transfer and Journal Entry Documentation – Supporting documentation was not maintained for all transfers and journal entries. Additionally, all transfers and journal entries were not approved.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers and journal entries. Additionally, all interfund transfers should be evidenced by approval in the minutes or budget, as applicable. Journal entries should be approved by an independent person and evidence of the approval should be documented.

- (R) Water and Sewer Revenue Notes – The provisions of the water revenue and sewer revenue note resolutions requires the City produce net operating receipts equal to at least 110% of the principal and interest on notes falling due in the same year. The City's fiscal year 2014 net water receipts of (\$2,456) were less than 110% of the \$24,960 of water revenue bond principal and interest due during fiscal year 2014. The City's fiscal year 2014 net sewer receipts of \$54,135 were less than 110% of the \$56,978 of sewer revenue bond principal and interest due during fiscal year 2014.

The provisions of the water revenue and sewer revenue notes also require sufficient monthly transfers to be made to separate revenue note sinking accounts for the purpose of making the note principal and interest payments when due. The City has not made the required transfers to these accounts.

Recommendation – The City should review its water and sewer rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments falling due in the same year. The City should also ensure sufficient monthly transfers are made to the water revenue and sewer revenue note sinking accounts as required.

- (S) Receipt Coding – The City overpaid \$3,800 in interest on a general obligation bond. The interest was paid from the Debt Service Fund; however, the \$3,800 later received from the bank as a refund for this overpayment was credited to the General Fund. It would appear the \$3,800 reimbursement should have been credited to the Debt Service Fund instead of the General Fund.

Recommendation – The City should transfer \$3,800 from the General Fund to the Debt Service Fund. In addition, in the future the City should implement procedures to ensure all receipts are coded to the proper fund.